Harrington Dep.

In The Matter Of:

AHERF v.
PRICEWATERHOUSE COOPERS

JUDY HARRINGTON
April 3, 2003

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HARRINGTON, JUDY

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A. Yes, yes. Yes
Q. All right. We can set that aside.
You know, we've asked you or Miss Zach asked you questions about risk contracts. There 02:41PM really weren't a large number of risk contracts in the eastern region; is that right?
A. Right.
Q. I think it's in the record here and there, but I want to put it in one place. We have the U.S. 02:41PM Healthcare contract which we've talked about?
A. Right.
Q. The Keystone Health Plan East contract?
A. Right.
Q. Which we talked about. Keystone Health Plan 02:41PM East being somehow affiliated with Independence Blue Cross?
A. Right.
Q. Besides those two, were there any other risk arrangements in the eastern region that you would 02:41PM consider substantial or large?
A. Well, the Qualmed, supposed Qualmed risk agreement, but that was very small. No. I mean, there was a primary care risk arrangement with Labors District Counsel, but it was primary care 02:41PM

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focus, it wasn't a full risk agreement.
Q. So there's the Qualmed arrangement, later Qualmed was called Foundation Health System?
A. Yes. 02:42PM
Q. But you depicted that as a small agreement?
A. Right.
Q. By that, there were not a large number of covered lives?
A. There were very few lives and it was always 02:42PM -- to me, it was unclear that whether or not we had a risk arrangement since I had no information about the number of lives, where they were or anything. Utilization. Never got a utilization report.
Q. And you just mentioned another risk 02:42PM arrangement, but that was for primary care services only?
A. Labors District Counsel. We managed a primary care network for them and then AHERF had a Workers' Comp agreement which wasn't done out of my 02:42PM office, but there was some -- it was some kind of risk arrangement for Workers' Comp.
Q. There was also an Aetna arrangement?
A. Aetna arrangement.
Q. Was that distinct from the U.S. Healthcare. 02:42PM

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A. That was distinct from U.S. Healthcare and when the two, U.S. Healthcare and Aetna merged, that merged into the U.S. Healthcare. I don't think we had hardly any -- I think we had very few Aetna 02:42PM lives, distinctly Aetna lives, before they merged with U.S. Healthcare.
Q. Then I think we saw a document earlier that talked about some kind of risk arrangement between Graduate and the Police and Fire Department of 02:43PM Philadelphia?
A. Right. I don't know if that was separate from the Qualmed risk arrangement or whether that was -- it was separate. It was a separate kind of arrangement for PMFA, but, again, that was also a 02:43PM very small group.
Q. So aside from U.S. Healthcare and the Keystone health plan, these were not arrangements?
A. Not significant.
Q. Right. And there may have been -- there was 02:43PM also Medicaid risk arrangement?
A. With Health Partners, right.
Q. Was there anything else in the east by way of risk contracts?
A. No. Other than the city Workers' Comp 02:43PM

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agreement, I don't remember any others.
Q. Did you have any firsthand involvement with the risk arrangements in the west?
A. No. 02:44PM
Q. We mentioned Health America risk contract earlier in the west.
Did you have any firsthand experience in --
A. No, that was handled by Marianne Darrah. 02:44PM
Q. Earlier today you testified that two of the advantages of creating a large network of primary care physicians would be to facilitate negotiations with managed care --
A. Right. 02:44PM
Q. -- companies?
And also to control, to some degree, where referrals would be sent by those primary care physicians; is that right?
A. Right. 02:44PM
Q. Of course, there are risk to have a primary care physician network as well; isn't that right?
A. Right. Correct.
Q. So to evaluate the performance of a primary care physician network, you'd have to look at other 02:44PM

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factors other than managed care contracts?
A. Absolutely, yes.
Q. I mean, obviously, you'd have to look at whether those physician practices were profitable or not? 02:44PM
A. Absolutely.
Q. And in addition to decide whether to create or expand an existing primary physician network, you'd have to consider not just the effect on managed care contracting, but also profitability of those practices? 02:45PM
A. Right.
Q. Did you -- am I right that earlier today you testified that some hospitals affiliated with primary care physicians to negotiate managed care contracts in a way that was short of acquiring the physician practices? 02:45PM
A. Yes. I don't remember which hospitals, but -- well, I guess Crozer had a physician association arrangement where physicians paid some kind of fee and became part of a network associated with the hospital. I know Penn had an affiliated practice arrangement. I don't know what the terms of it were. There were other ways of affiliating other 02:45PM 02:45PM

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than purchase.
Q. So, these non-acquisition affiliation arrangements enabled hospitals and physicians to align together to negotiate with managed care organizations? 02:46PM
A. Yes, yes.
Q. Also, you testified earlier that when hospitals join or merge with other hospitals to form a larger health system such as AHERF, by joining with those other hospitals they get better leverage in negotiating with managed care organizations; is that right? 02:46PM
A. Correct.
Q. To evaluate whether a hospital ought to merge and join with other -- merge with hospitals and form a larger system, one would have to look at factors other than managed care contracting; isn't that right? 02:46PM
A. Oh, yes. 02:46PM
Q. You knew Carol Calvert personally?
A. I worked for her. I never knew her before I worked for her. I never saw her after I worked for her.
Q. Do you know why she left AHERF? 02:46PM

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A. My understanding was she was let go.
Q. Do you know why she was let go?
A. No.
Q. Do you know any of the arrangements surrounding her departure? 02:46PM
A. The rumor was that she was given some kind of severance. I came into work one day and there was a memo on my desk saying -- announcing she was let go that day. 02:47PM
Q. Do you know how much her severance was?
MS. ZACH: Objection. Foundation.
MR. WITTEN: I'm asking her if she knows how much the severance was.
THE WITNESS: I don't know. 02:47PM
BY MR. WITTEN:
Q. Did Carol ever discuss with you the nature of her relationship with Sherif Abdelhek?
A. No.
Q. Did anyone else ever discuss with you the nature of Sherif Abdelhek's relationship with Carol Calvert? 02:47PM
A. There was rumors.
Q. What rumors did you hear?
A. This was a personal relationship between 02:47PM

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them, between Carol and Sherif.
Q. You mean rumors that they were having an extramarital affair?
A. Yes. 02:47PM
MS. ZACH: Objection.
BY MR. WITTEN:
Q. Did you know Bob Perut?
A. Yes.
Q. He was the CEO of Hahnemann; is that right? 02:48PM
A. Yes.
Q. Do you know why he left AHERF?
A. He was doing consulting and my understanding was that his leaving was inevitable. I mean, he basically was replaced. He began his own consulting services. 02:48PM
Q. Do you know whether he was paid a severance?
A. I don't know.
Q. Do you know whether as part of the arrangement by which AHERF acquired Hahnemann he was promised money personally? 02:48PM
A. I don't know.
Q. I should have asked you this: Did Carol Calvert ever discuss with you the nature of her relationship with David McConnell? 02:48PM

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A. No.
Q. Did you ever discuss with anybody else the nature of Carol Calvert's relationship with David McConnell? 02:48PM
A. No.
Q. Did you ever --
A. I mean. There were rumors.
Q. What rumors did you hear?
A. That there was a personal relationship 02:48PM outside of the office.
Q. You mean an extramarital affair?
A. Well, Carol wasn't married. So, I don't think it would be extramarital for her, but that was the rumor. 02:49PM
Q. You never heard -- did you ever hear that Bob Perut was paid over $3 million around the time you left?
A. No.
MS. ZACH: Was that no? I'm sorry. 02:49PM
THE WITNESS: The answer to the question was no.
BY MR. WITTEN:
Q. Do you know who Bill Buitner or William Buitner? 02:49PM

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A. Bill Buitner. Bill Buitner. Didn't -- he worked for Coopers?
Q. Right.
A. Yes, I think I met him one time at a 02:49PM meeting. Yeah, I don't remember the context, but I do recall meeting him.
Q. Meeting him just once?
A. Yeah. I think -- it was a meeting -- it seems like it was in Pittsburgh. It seems like -- 02:50PM there was some service they were going to do for us and I remember meeting with them to talk about it, but they never did it or we didn't agree to the contract. I don't remember the terms of it, but I do remember meeting him. 02:50PM
Q. But you don't remember ever actually working on any project with him?
A. No.
Q. Or working on a project for him or him working on a project for you? 02:50PM
A. No.
MS. ZACH: Objection.
BY MR. WITTEN:
Q. How about Amy Frasier, do you know her?
A. Amy Frasier? No. 02:50PM

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Q. Do you know -- have you ever met somebody named Mark Kierstein?
A. No.
Q. To clarify something for me, were all the 02:50PM insurance arrangements between U.S. Healthcare and the eastern region tied up in that risk contract? Not a well asked question, but what I mean to say is, did U.S. Healthcare provide other insurance or payments to the eastern regional hospitals outside 02:51PM of the risk contract?
A. There were other contracts around specific services like a PT agreement or a radiology agreement, or something like that, but all the services provided to U.S. Healthcare members who 02:51PM were capitated to our providers were the -- the cost came out of our risk contract.
Does that answer your question?
Q. Yes.
A. I don't know if it does or not.
Q. Can you take a look at Exhibit 1397? It's in your pile there. 1397.
A. Okay.
Q. Do you have it?
A. Mm-mm. 02:52PM

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Q. Who did you send this memo to? I don't recognize this --
A. SSA is Sherif.
Q. Where is SSA? To SSA? 02:52PM
A. Sherif S. Abdelhek.
Q. Immediately from Judy Harrington it says TO and then there's code for something.
A. Yeah, I'm trying to figure out what that is. It looks like -- I mean, I think this is like -- I 02:52PM wonder if this is e-mail at Allegheny General, AGH being Allegheny General.
Yes, I suspect that first one is maybe Sherif's e-mail or his secretary's e-mail. Debbie Hadtruck, the second one, AGH or AGHADMIN. I think 02:53PM she was in Sherif's administrative office.
Q. How about the cc at the bottom, is there somebody named tcoffey then that you have cc'd?
A. I don't remember who that is. I think NCB was new college building. Oh, yes, that's Tess 02:53PM Coffey. Tess Coffey was Donald Kaye's administrative assistant.
Q. So presumably this was a means of getting it to Donald Kaye?
A. Yes. 02:53PM

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EXHIBITS

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CERTIFICATE

I HEREBY CERTIFY that the proceedings, evidence and objections are contained fully and accurately in the stenographic notes taken by me upon the deposition of JUDY HARRINGTON, taken on April 3, 2003, and that this is a true and correct transcript of same.

____
MICHELLE McCONNELL, CSR
and Notary Public

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Heberton Dep.

In The Matter Of:

AHERF v.
PRICEWATERHOUSECOOPERS, LLP

RICHARD HEBERTON

January 15, 2004

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sometimes additional resources would be pushed down into the obligated group. But it wasn't a requirement of the parent. They could just let the obligated group perform on its own without assistance and let it go under without assistance and there's nothing you could do. So it was encouraging to hear that maybe resources of the broader system would be applied to the obligated group.
Q. When you first learned of the cost of AHERF's physician practice acquisition strategy and how those costs impacted the DVOG, did you discuss your concerns with Karleen Strayer?
A. Yes.
Q. And do you recall anything about the substance of that conversation?
A. No.
Q. Aside from Ms. Strayer having the same concerns as you.
A. No.
Q. Do you recall discussing, again, in this time frame when you first learned about the acquisitions the issue with Chip Reilly?
A. Discussing the issue with Chip? Is

that what you're asking?
Q. Yes, when you first learned about the acquisitions.
A. I'm sure I did. I don't remember specific conversations though.
Q. On a more general level, do you recall discussing with Chip Reilly the physician practice acquisitions made by AHERF at any point in time?
A. No, I don't remember.
Q. Aside from Karleen Strayer and Chip Reilly, do you recall having a conversation with anyone at MBIA about the physician practice acquisition strategy being pursued by AHERF in this time frame?
A. I would imagine that we discussed it with Pat Mathis. I don't remember a specific conversation.
Q. Why would you imagine that you discussed it with Pat Mathis?
A. As the leader of our surveillance area, we would discuss a concern like that with him. Whether we discussed that very early on I don't remember. But I'm sure at some point it

was discussed.
Q. If I can show you what we've previously marked as Exhibit 1887.
Mr. Heberton, if you would take a few moments to review this document, I'd like to ask you some questions about it.
A. Okay.
Q. My first question is do you recall writing this document?
A. Yes.
Q. And do you recall why you wrote this document?
A. Part of our annual review cycle.
Q. This is the cycle by which MBIA's surveillance department reviewed the audited financial statements for an existing credit within a year of the bond issuance?
A. Yes.
Q. You address this document to the file and then there is a file name which appears. Do you see that?
A. Um-hum.
Q. Do you recall who would have seen or had access to this document in this time frame?

A. I would have certainly given it to Karleen Strayer upon completion.
Q. Let me ask a more general question if I could. Why did you address this document to the file?
A. That's the way we always did it for all of our credit reviews. It's not really to anyone in particular; it's just part of our normal process; therefore it goes to the file.
Q. And I take it this is a printout of something that was within an electronic file at some point in time.
A. Yes, a Word document.
Q. And I take it anyone within the surveillance department had access to the folder or file that contained this document.
A. Yes.
Q. When you would write a hospital unit rating and review form such as this, how would you alert individuals in the surveillance department that such a document had been created and was added to the file?
A. They would know from the monthly report. It would list all the deals that we had

rated during that month. And if they wanted to find out more about it, they could go to the file and pull it.
Q. Would this document have appeared in the monthly report or would a blurb about --
A. A blurb.
Q. -- the contents of this document have put in it?
I take it you were the only analyst in the healthcare department responsible for monitoring the DVOG at this time.
A. Yes.
Q. This document, Exhibit 1887, reflects a downgrade from 4-B to 6-B.
A. Right.
Q. Did you play a role in that downgrade?
A. In deciding that downgrade? Yes.
Q. Did you recommend that it be downgraded to 6-B or did you recommend that it be downgraded to another numeric-alphabetical rating?
A. As I remember, I think I did discuss with Karleen whether it should go to either a 6

or A-7. Looking at just the financial statements and the ratios that came out of it, which are probably attached here -- no, they're not, okay. As I remember, the leverage ratio and the low cash just on its own would have indicated that maybe it was a 7. But other offsetting factors such as the large size of the healthcare system indicating a stronger competitive capability than, say, a stand-alone entity led us I believe to give it a slightly higher rating and we went with a 6 instead of a 7.
Q. Do you recall whether you in fact recommended that the rating be 7?
A. No, I don't remember specifically. No, I don't remember specifically saying I think it should be a 7. I think we probably discussed it.
Q. I take it a few moments back you were looking for a spread or a printout of a 2020 spreadsheet that would have been attached to this document.
A. Yes.
Q. Is that something that you would have generated in this time frame to go along with

this memorandum?
A. Yes.
Q. Were you responsible for maintaining the 2020 trend sheet with respect to the DVOG in this time frame?
A. Yes.
Q. And do you recall entering audited financial statement information into the 2020 trend program for DVOG?
A. No, I don't remember.
Q. Is that something you would have done as a matter of course?
A. Yes.
Q. And is the same true with respect to unaudited financial statement such as interim quarterlies?
A. Right.
Q. Why would the large size of the AHERF system be a factor weighing -- withdrawn.
Why would the larger size of the AHERF system be a factor that would weigh in more heavily for a 6 rating than a 7?
A. It indicated a greater capability of negotiating with managed care organizations to

win contracts at a reasonable price.
Q. Why would the size of the system itself matter in terms of the contracts that the DVOG would be able to secure with managed care providers in Philadelphia?
A. Managed care providers often want to make sure that their participants had a variety of hospitals that they could go to, physicians that they could go to, all the way from community hospitals up to tertiary hospitals. And a larger integrated organization like AHERF's DVOG could provide that as opposed to, say, just a single site community hospital.
Q. How else, if at all, would the larger size of the AHERF system be a factor weighing in on the side of a 6 rating versus a 7?
A. You also have greater possibility that even if you have one underperforming unit, there could be other units within the group that could help shore up the overall financial strength and maintain cash flow. So you want to rely upon one place or even one or two places to provide all the cash flow that had multiple sources of income.

stronger competitive capability in your view?
A. It was helpful but I don't think it was strong enough for them to really have a true competitive advantage over some of the other large systems in the area.
Q. So perhaps I'm just confused then. How is it that the DVOG was in a stronger competitive -- withdrawn.
How is it that the DVOG -- I apologize. How is it that AHERF had a stronger competitive capability that weighed in on the side of a 6 and not a 7?
A. Well, did you say AHERF?
Q. Yes. I apologize. I thought we were talking about AHERF. Were you talking about the DVOG?
A. I've been talking about DVOG.
Q. How is it then that DVOG had a stronger competitive capability given that their market share was only reasonably large?
A. It was certainly stronger than individual site hospitals in the Philadelphia area which probably would have led me with the same sort of financial ratios to call it a 7.

But that's not to say that it was somehow in a competitive situation where it was the strongest or -- because there were other large systems, like you had mentioned before the University of Pennsylvania and Thomas Jefferson that were, I can't remember, equally larger or larger that would still put a lot of pressure on that DVOG system. But that still puts it way ahead of a small one or two-hospital group.
Q. But it's your recollection that there were in fact many healthcare system in the Philadelphia area.
A. Yes.
Q. And it's your recollection that the DVOG was competing against those other systems such as the University of Pennsylvania, Thomas Jefferson, not against the small one-unit hospital.
A. They're competing against all of them. Ones they had to probably worry about the most were the larger.
Q. Is it your recollection, though, that the market was splintered on the provider side?
A. I don't know what that means.

Q. Is it your sense, or your recollection rather, that healthcare providers in the Philadelphia area -- withdrawn.
Based on your experience, was a 2 point numeric drop in a rating uncommon within eight months of an initial bond offering in this time frame and for a healthcare credit?
A. Yes.
Q. If you would turn with me to page 29894 of Exhibit 1887, and I'm going by the pages that appear in the lower right-hand corner which are called Bates numbers. And if you would go to the top of this document, I would direct your attention to the second line which states, "Previously, this credit number had consisted of our exposure to Hahnemann University Hospital."
A. Um-hum.
Q. Was it your understanding that the Hahnemann University Hospital was part of the DVOG?
A. Yes.
Q. And was it your understanding that Hahnemann University Hospital or the Hahnemann healthcare system more broadly speaking had

issued bonds in the late 1980s and early 1990s for which MBIA provided bond insurance?
A. Yes.
Q. Is it your recollection that there was a bond covenant default at Hahnemann in 1994?
A. I don't remember that.
Q. If you would turn with me to the second paragraph from the bottom which states, "The combined entity shows the scars of those weak balance sheets which were further harmed by 43 million in restructuring write-offs in 1994 and 1995, a large 33 million extraordinary loss due to the rate financing in 1996 and net transfers to other affiliates of 74 million in 1996 and 17 million in the first quarter of fiscal year 1997." Do you see that?
A. Yes.
Q. I take it you obtained the amount of the restructuring write-offs in 1994 and 1995 from a review of the audited financial statements for the DVOG entities for those fiscal years.
MR. WITTEN: Objection.
A. Are you saying the financial audits

of those entities prior to their joining the DVOG group?
Q. Correct.
A. Yes, I think that's right.
Q. And that would have been part of a routine review that you would have conducted in getting up to speed on the newly formed obligated group?
A. Yes.
Q. I take it you got the net asset transfer number of 74 million in fiscal year 1996 from a review of the fiscal year 1996 audited financial statements for the DVOG.
A. Yes.
Q. And is that again part of the routine review of those financial statements that you would have conducted in, again, getting up to speed on reviewing it?
A. Yes.
Q. If I can show you briefly what we've marked as Exhibit 1884. I don't want to spend much time with this document, but first let me ask you if you'd turn to the first page of Exhibit 1884.

Do you recognize on the page there appears to be a stamp from MBIA's surveillance department indicating that this document was received on November 14th, 1996?
A. Yes.
Q. If you'd turn with me to the second page of this document, here appears a letter from Kelly Mercks with AHERF to Emmeline Rocha-Sinha. Do you see that?
A. Yes.
Q. Do you see in the middle bottom of the page a note to Karleen Strayer from Emmeline Rocha-Sinha which states "FYR," which I take to mean for your review.
A. Yes.
Q. Was it typically the case in this time frame that financial statements were directed to individuals on the new business side, would then be forwarded to Karleen Strayer which would be distributed to the individual responsible for that credit?
A. Yes.
Q. Would you turn with me to page 015822. Do you see here the combined statement

of changes in net assets?
A. Yes.
Q. Do you see transfers to affiliates net 73,676,000?
A. Yes.
Q. So I take it this is the number that you rounded to 74 million in putting together your memoranda?
A. That looks right.
Q. Do you recall receiving and reviewing interim unaudited financial statements for the DVOG for the first quarter of fiscal year 1997?
A. I don't remember it specifically.
Q. Just to be clear, is it your recollection that the DVOG was on a June 30 fiscal year?
A. I think I've just seen that, so yes.
Q. If I can show you what we previously marked as Exhibit 1891. Mr. Heberton, if I could at the outset ask you a general question. In your monitoring of healthcare credits as vice president in the healthcare unit, I take it you viewed it as important to obtain the most timely financial information that you could get your

hands on.
A. Yes.
Q. Why was that?
A. You wanted to find out as soon as possible if there were any problems.
Q. And why would you want to find out as soon as possible if there were any problems?
A. Because we would want to initiate remediation activities, meaning try and find ways to fix the problem or head off the problem such that it wouldn't affect their ability to repay their bonds.
Q. It's my understanding that the primary way in which MBIA secured such information was to put financial reporting requirements in master trust indentures.
A. Yes.
Q. Do you recall whether in this general time frame whether there was any standard reporting requirements with respect to audited financial statements?
A. Oh, how soon you were supposed to receive them --
Q. Correct.

A. -- after close? Yes, typically there was a requirement. What that was I can't quite remember. It might have -- it would have been something like 180 days or 120 days. I don't remember specifically.
Q. Do you have Exhibit 1891 in front of you?
A. Yes.
Q. I apologize, I think I've given you the wrong document. If you would turn back with me to Exhibit 1887. Specifically to page 029895.
A. Okay.
Q. Do you see at the top the statements, "Good profitability in the last two years appears to partially mitigate this very weak balance sheet, but it depends on how you interpret the income statement. The spreads show bottom line profits of 1.6 million in 1994, 36 million in 1995, 27 million in 1996 and 9.4 million in the first quarter of 1997. But 1994's result excludes a 39 million restructuring charge, 1995 excludes a 4 million restructuring charge and 1996 excludes a 74 million transfer of

net assets to affiliates." Do you see that?
A. Yes.
Q. I take it by spreads you're referring to 2020 trend sheets.
A. Correct.
Q. The passage continues, "Of those transfers 51 went to support the acquisition (10 percent) and operation (90 percent) of physician practices by AHG. Such support of physician practices had previously been accounted for mostly as an expense." Do you see that?
A. Yes.
Q. It continues, "For example, in 1995 the group recorded an expense of 8 million and a net asset transfer of 5 million to AHG. If all this 51 million had been treated as an expense in 1996, the group would have recorded a loss of over 24 million instead of a 27 million profit." Do you see that?
A. Yes.
Q. I take it you used an exclamation point to emphasize the dramatic difference between a 24 million loss and a 27 million profit.

A. Correct.
Q. And I take it you're including this information in this document to alert the reader to your interpretation of the financial statements.
A. Correct.
Q. Do you know whether any bond covenants would have been violated had the DVOG reported a 24 million loss in fiscal year 1996?
A. I don't recall if it definitely would have caused a default, but I would assume that a large loss like this could have done so.
Q. And do you have any particular covenant in mind?
A. The rate covenant.
Q. And why do you say rate covenant?
A. It's the one that looks at income results and compares it to the debt service to see if it's covering it sufficiently.
Q. And do you recall what the penalty was if there was a rate covenant default at the DVOG?
A. No.
Q. Do you have Exhibit 1884 handy?

Those are the audited fiscal year 1996 statements for the DVOG.
A. Yes.
Q. Would you please turn to page 015838. Do you see the subheading "related party transactions continued"?
A. Yes.
Q. This passage reflects the fact that during fiscal year 1996 the DVOG through AHERF transferred roughly 51 million to Allegheny Integrated Health Group to help fund the physician practice acquisition strategy that AHERF was pursuing, is that correct?
A. I see that.
Q. I take it when you referred to 51 million being treated as an expense in 1996, this is the amount to which you were referring.
A. This says 58 million. Am I in the wrong place?
Q. Oh, I'm sorry, I'm a little further down, beginning with the sentence, "Also during fiscal year 1996 the obligated group through AHERF transferred 50,499,000."
A. That looks more correct, yes.

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accounting treatment for these transfers could impact its ability to comply with coverage tests?
A. No, I don't recall that.
Q. Did you view this treatment issue as a problem for MBIA?
A. Yes.
Q. Why was that?
A. It was preventing -- well, two things. It was allowing them to transfer more cash out of the system. So since they went up to 76 million versus the 42 million limit they would have had otherwise. And we were concerned that they didn't have a lot of cash to begin with, and to see more go out was a significant credit concern.
Q. Was it your understanding at the time that had the 74 million that was transferred out of the DVOG in fiscal year 1996 been treated as an expense, that one or more coverage tests would have been breached?
A. Yes.
Q. Do you recall developing or ascertaining the numeric threshold for a breach

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of one or more of the coverage tests?
A. I think I remember creating a spreadsheet to calculate sort of what-if scenarios to tell what may have happened if it was treated a different way.
Q. Do you recall what you did with that spreadsheet once you created it?
A. I probably shared it with Karleen. I don't know if it went any further than that. It might have. It might have been discussed with Pat Mathis; I don't remember.
Q. Is it correct that the spreadsheet contained what-if scenarios with respect to not only transfers in absolute terms but also how the transfers were classified, meaning expenses or net asset transfers?
A. Yes, I mean, I think that's what I was implying. I was trying to show it under the different scenarios.
Q. Across these two issues.
A. Which two issues?
Q. Well, the issue of an 8 percent of all assets test versus a 10 percent of all PP&E --

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A. Right.
Q. -- test. And then the other issue of AHERF's treatment of these transfers and how AHERF's treatment impacted various coverage tests.
A. Yes. That's what I recall it doing.
Q. Do you recall whether Ms. Sprayer or Mr. Mathis followed up with you on this spreadsheet?
A. I can't remember.
Q. Did the spreadsheet also contain contingencies? And by that I mean something along the lines of if this covenant is breached, I recommend that MBIA do X.
A. I don't remember.
Q. Mr. Heberton, if I can show you what we've marked as Exhibit 1889.
Mr. Heberton, do you recognize this as the legal analysis for the DVOG master trust indenture generated by the new business -- excuse me, the healthcare unit within the new business group at MBIA?
A. I don't recognize this. It could be.

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Q. Do you recognize the handwriting that appears on these pages?
A. No.
Q. If I could ask you to turn with me to page 017811. I apologize if this is a little redundant, but do you recognize the handwriting that appears on this page?
A. No.
Q. Do you recall discussing the 8 percent of all assets versus 10 percent of PP&E issue with Emmeline Rocha-Sinha at any point in time?
A. No, I don't recall.
Q. If I can show you what we've previously marked as Exhibit 2193. Mr. Heberton, do you recognize this document, Exhibit 2193?
A. Yes.
Q. Why did you write this document?
A. Whenever we downgrade at MBIA a credit to the caution list or credit watch list, in other words, either go 6, 7 or 8, we do so by -- we alert everyone in the company, especially senior management, that this is being done through an alert report.

Q. I take it the downgrade was motivated by the DVOG's weakening balance sheet, its large ongoing cash transfers to affiliated physician groups in the midst of fierce competition in the Philadelphia market, as is reflected in the first passage here.
A. Right.
Q. Do you recall any factors beyond those that prompted the downgrade and the ones we discussed earlier?
A. You mean the one we discussed earlier, the stiff competition, the tough Philadelphia market? Yes, that was included as well.
Q. In the first paragraph you've written "While MADS coverage appears strong at 2.98 X, if the 74 million in cash transfer is made in 1996 are included, coverage falls to .87 X." Do you see that?
A. Um-hum.
Q. I take it that reflects the fact that had the asset transfers out of the DVOG been included as an expense, the DVOG would have failed to comply with the debt service coverage

rate.
A. Yes.
Q. Do you recall what the remedy was for MBIA if the DVOG failed to comply with the rate covenant?
MR. WITTEN: Objection. I didn't hear your answer.
A. No.
Q. You continue in this paragraph, "Partially mitigating these concerns are 123 million in restricted cash and an additional 250 million in unrestricted cash in the AHERF division but outside the obligated group."
A. Right.
Q. How much weight did you put on the existence of this additional cash within the AHERF system?
A. It was important. It's always nice to know that there's a possibility of additional resources being brought into the obligated group.
Q. And did that possibility play a role in the decision to downgrade it to numeric rating 6 as opposed to 7?

A. As I recall, yes.
Q. In the second paragraph you state, "In 1996 ADVOG transferred 74 million to its affiliated physician group and other affiliates to pay for salaries and other expenses. In previous years this type of transfer was partly treated as an expense. However, in 1996 ADVOG recorded it only as an adjustment to the fund balance. This allowed ADVOG to post an apparent 27 million profit. If all the transfer had been treated as an expense, ADVOG would have lost 47 million." Do you see that?
A. Yes.
Q. Would you turn back with me to Exhibit 1887. And this is your February 28th, 1997 memorandum.
A. Right.
Q. If you would turn with me to the third page, 029895, here you say at the top that if these transfers had been treated as an expense, there would have been a 24 million loss.
A. Right.
Q. But in Exhibit 2193, the March 11,

1997 memo, you're referencing a $47 million loss.
A. Right.
Q. I'm just trying to gain an understanding of the discrepancy.
A. The discrepancy I believe had to do with our uncertainty as to why all of the transfer, even historically, wasn't treated as an expense. It had been true that part of the transfer may have been treated as an expense in the past, but to our way of -- at least my way of thinking, I didn't see why all of it shouldn't be transferred -- be considered as an expense.
And I think there's a confusion, just to be more conservative in writing this up, I included the entire transfer as an expert in the report while I just followed what was in the audit note when I was writing up this part.
Q. And why is it that you thought that all of the transfers should be considered as an expense?
A. It gets back to sort of the approach to doing a credit analysis to a hospital or really for any sort of competitive entity. And

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additional financial advisors to be brought in.
Q. Is it more likely that a remediation would be successful if one gets an earlier start rather than a later start?
MR. KRUSKO: Objection to form.
A. I believe so.
Q. Do you understand that you're the MBIA analyst who first reviewed the DVOG 1996 audited financial statement?
A. Yes.
Q. And did the DVOG 1996 audited financial statement disclose a covenant violation?
A. No.
Q. If the DVOG 1996 audited financial statement had disclosed a covenant violation, what do you expect that you would have done?
MR. KRUSKO: Objection; calls for speculation.
Q. You can answer.
A. I would be speculating, but I would imagine that it would have speeded up our remediation process, I probably would have hired assistance from consultants and attorneys at an

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earlier stage.
Q. Would MBIA have reviewed all the options available to it?
A. Yes.
Q. And if one of those options was a right for a consultant call in, would MBIA have pursued that?
MR. KRUSKO: Objection to form.
A. It's likely.
Q. If MBIA after a covenant default had been dissatisfied with management's response, would MBIA have gone to the board of trustees?
MR. KRUSKO: Object to form. He's not a 30(b)(6) witness.
Q. You can answer that, even if you're not a 30(b)(6) witness.
A. Whatever that means. It's possible it would go to the board. It would have depended on the situation.
Q. I'm talking about if you were unsatisfied with the steps that management were taking.
A. Ultimately it would go to the board if we were not getting cooperation at the

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management level.
Q. Earlier today do you remember that Mr. Krusko asked you whether MBIA had sought some sort of commitment from AHERF that it would stop transferring money from DVOG to the physician practices?
A. Yes, I remember that question.
Q. If the 1996 DVOG audited financial statement had disclosed a covenant violation, would that violation have given MBIA leverage to try to negotiate exactly such a commitment?
MR. KRUSKO: Objection; calls for speculation.
A. It would have given them leverage.
Q. Do you recall earlier that you were asked if MBIA -- you were asked by Mr. Krusko if MBIA had sought some sort of binding commitment from AHERF, that it would use resources at either the parent level or in the west to support the DVOG?
A. Yes, I remember the question.
Q. So if the 1996 DVOG audited financial statement had disclosed a bond covenant violation, would that violation have given MBIA

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leverage to try to negotiate exactly that sort of commitment?
MR. KRUSKO: Objection.
A. It would have given them leverage. I don't know of the outcome.
Q. In general, if the 1996 DVOG audited financial statement had disclosed a bond covenant violation, would that have given MBIA leverage to try to negotiate various controls over actions that AHERF management might otherwise have wanted to take?
MR. KRUSKO: Objection.
A. I feel it would have given them some leverage.
Q. Could you take a look at Exhibit 1887. This is your February 28, 1997 memo.
A. Okay.
Q. And could you take a look at the third page of this document, the numbers in the bottom right are MBIA 029895.
A. Okay.
Q. Are you on that page?
A. Yes.
Q. I want to draw your attention to the

third paragraph, the first sentence here. It reads, "The tertiary hospitals in St. Christopher's are the money makers in the group. As the medical school generates losses ($5 million in 1996) and the community hospitals have historically posted poor results." Do you see that sentence?
A. Yes.
Q. Do you happen to recall which are the tertiary hospitals that you described as money makers?
A. Well, I remember one of the tertiary hospitals was Hahnemann. I don't recall the names of the others.
Q. Could you look at the previous page in case this helps jog your memory. Take a look, please, at the third paragraph that begins "Allegheny University hospitals," underlined.
A. Right.
Q. It says Allegheny University hospitals consists of two Philadelphia tertiary hospitals.
A. Yes.
Q. And do you see the first one is the

Hahnemann that you're mentioning?
A. Right.
Q. Do you see the second one there?
A. Right. The Medical College of Pennsylvania.
Q. You write that the second one is Allegheny East Falls Hospital and you described it as formerly the Medical College of Pennsylvania Hospital.
A. Yes.
Q. Are these two hospitals -- let's turn now back to the page you were previously looking at. When you refer to the tertiary hospitals in this sentence, are you referring then to Hahnemann and the Hospital Medical College of Pennsylvania?
A. Correct.
Q. When you wrote this memo, did you believe that Hahnemann was a money maker?
A. That's what it says here. I don't specifically remember the financial results.
Q. Would you have gotten those financial results from the 1996 audited financial statements of DVOG?

A. I don't know. Often financial audits don't break out the individual hospitals and sometimes they do. So I don't recall if that was done in this case or if I received that information from management.
Q. Am I right that you prepared this memorandum? You testified that you prepared this memorandum following your review of the 1996 DVOG financial statements?
A. Yes.
Q. And the tertiary hospitals that are described as money makers are Hahnemann and the hospital at the Medical College of Pennsylvania?
MR. KRUSKO: Objection; asked and answered.
A. Yes.
Q. And St. Christopher's Hospital for Children is also described as a money maker?
A. Yes.
Q. We can set this document aside.
A. Okay.
Q. When you were analyzing DVOG, were you trying to find a covenant violation?
A. You're always checking to see if a

covenant has been violated.
Q. Would you say that you were trying to find a covenant violation?
MR. KRUSKO: Objection to form.
A. Can you phrase it a different way?
Q. Was it your view that a covenant -- had there been a covenant violation that would have enhanced the rights that MBIA enjoyed?
A. Yes.
Q. So in terms of protecting MBIA's interests, would it have been helpful for there to have been revealed a covenant violation?
A. Yes.
Q. Can you take a look, please, at Exhibit 1888. This is the March 10th, 1997 higher risk credit checklist.
A. Okay.
Q. Was the point of your preparing this document in part at least to check to see if there had been a covenant violation?
A. Yes.
Q. Was covenant compliance, or rather compliance with covenant terms measured based on the audited financial statement of DVOG?

A. Yes.
Q. I don't have any further questions.
A. Okay.
MR. KRUSKO: Could we go off the record?
THE VIDEOGRAPHER: Going off the record. The time is 2:59 p.m.
(Recess taken.)
THE VIDEOGRAPHER: Returning to the record. The time is 3:00 p.m.
EXAMINATION CONTINUED BY MR. KRUSKO:
Q. Welcome back, Mr. Heberton. Do you understand that you're here today to testify based on your personal experiences in your personal capacity?
A. Yes.
Q. I take it then you are not testifying in any way on behalf of MBIA.
A. That's correct.
Q. Sir, would you turn with me to page 11, going by the Bates numbers, of Exhibit 330. And again --
A. Page 11 you said?
Q. Yes, going by the Bates numbers.

It's page 4 using the bottom center pages. Sorry for the confusion.
A. Okay.
Q. Do you recognize Exhibit 330 as the master trust indenture for the DVOG bond offering?
A. Yes.
Q. Going back to page 4 of the document, do you see there a definition of the term "consultant"?
A. Yes.
Q. Here it states, "Consultant shall mean a person who, which is appointed by any member of the obligated group for the purpose of passing on questions relating to the financial affairs, management or operations of one or more members of the obligated group, or the entire obligated group, and has a favorable reputation for skill and experience in performing similar services in respect of entities engaged in reasonably comparable endeavors."
Do you see that statement?
A. Yes.
Q. I take it then according to the

master trust indenture, the obligated group had the power to select the consultant that would be brought in pursuant to any sort of consultant call-in provision, is that correct?
A. That seems to be right, assuming this is the term that's used in that other definition.
Q. Correct. In your experience, is it more beneficial for a credit enhancer such as a bond insurance company to have the ability to select the consultant that is required to be brought in pursuant to a consultant call-in provision as opposed to the obligated group having the power to select that consultant?
A. Yes, that's better. Though it's not unusual to see this.
Q. Under this provision, was MBIA given any legal right to block the selection of a consultant by the DVOG provided this definition was met?
A. It does not appear so.
MR. KRUSKO: I don't have any further questions.
MS. SPRINGER: Neither do I. We're

done.
THE VIDEOGRAPHER: This concludes for today, January 15th, 2004, the videotaped deposition of Richard Heberton. Going off the record, the time is 3:03 p.m.
(TIME NOTED: 3:03 p.m.)

____
RICHARD HEBERTON

Subscribed and sworn to before me
this _____ day of __________, 2004.

____

IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF PENNSYLVANIA

THE OFFICIAL COMMITTEE OF
UNSECURED CREDITORS OF
ALLEGHENY HEALTH, EDUCATION
& RESEARCH FOUNDATION,
Plaintiff,.

vs. Civil Action No. 00-684

PRICEWATERHOUSECOOPERS,
LLP,
Defendant.

Videotaped Deposition of KRISTEN LEE HEINLEIN, CPA, called for examination under the Applicable Rules of Federal Civil Procedure, taken before me, Michele E. Eddy, a Registered Professional Reporter and Notary Public in and for the State of Ohio, pursuant to notice and stipulations of counsel, at the offices of Jones Day, 500 Grant Street, Suite 3100, Pittsburgh, Pennsylvania, on Tuesday, the 24th day of February, 2004, at 9:00 a.m.

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best of your understanding?
MR. McDONOUGH: In the accounts receivable?
Q. In respect to the accounts receivable for the '97 audit.
A. She was supposed to review my work and do more of the high level A/R accounting work.
Q. When you say high level A/R accounting work, what do you mean by that?
A. More analysis.
Q. Do you recall any discussions with Miss Porter about more the high level analysis type of work in the A/R area in the 1997 audit?
A. She would ask me questions regarding my schedules, but nothing more than that.
Q. So was it your understanding that her responsibility went beyond simply seeing if you completed the audit steps?
A. Yes.
Q. What was miss -- your understanding of what Miss Frazier's role was with respect to accounts receivable in the 1997 audit?
A. She was supposed to oversee Christa

and myself.
Q. Again, doing more of the high level analysis work?
A. Exactly.
Q. Do you know why it was that you were selected as the associate to perform audit tests in the A/R area for the 1997 audit?
A. I think I was the only second year staff on the engagement.
Q. Is that something that's typically given to a second year staff person?
A. Yes.
Q. The accounts receivable area?
A. Yes.
Q. As opposed to a first year associate?
A. Yes.
Q. Why is that?
A. A/R's a little bit more risky.
Q. Would you say it's a high risk area of a healthcare audit?
MR. McDONOUGH: Object to form.
A. It's one of the risky areas, yes.
Q. Why is that?
A. Collection always is risky.

Q. When you say the collection is always risky, you mean the collection of accounts receivable?
A. Collection of accounts receivable, yes, collection of payments.
Q. Prior to your -- beginning your audit work for the engagement, do you recall having any discussions with anyone else on the audit team about the state of the AHERF affiliates' accounts receivable?
A. I'm not sure I understand what you mean by state of their entities.
Q. Let me refine the question.
Do you recall any discussions with anyone else on the AHERF audit team that some of the AHERF affiliates, particularly in the Philadelphia area, had a lot of old accounts on their books?
A. Yes.
Q. With whom do you recall those conversations?
A. Brian Christian, he was the senior -- he was the staff member that performed the A/R audit the previous year before I did.

Q. Do you recall anything Mr. Christian said in meetings --
A. No.
Q. -- with him?
A. He basically went through his work papers and pointed me to some things and schedules that I was going to need to obtain for the current year.
Q. About how long would you say you worked with Mr. Christian reviewing the A/R area?
A. I don't know.
Q. Do you recall discussing with Mr. Christian or anyone else on the AHERF audit team the fact that AHERF was writing off a lot of the old accounts?
A. Not that I remember.
Q. If you could flip back, please, to what I marked -- or what I showed you earlier, Exhibit 4035, which was the budget to actual hours work paper that had your time on it, that chart number at Bates ending 823 that had your hours on it.
A. Yes.
Q. The fourth line under

preliminary -- I take it preliminary is the preliminary audit phase of the audit, right?
A. Yes.
Q. And then before that there was planning, right, and then year-end?
A. Yes.
Q. I note that you have 153 hours under the heading RMC revenue, paren, including early substantive, end paren.
A. Yes.
Q. What does RMC stand for?
A. I don't remember.
- - - - -
(Thereupon, Deposition Exhibit 4284 was marked for purposes of identification.)
- - - - -
Q. For the record, what I've marked as Exhibit 4284 is a document that is titled Record of Monitoring Controls, Health Controls, AHERF, 6-30-97.
Miss Porter (sic), if you would take a look at that document, you'll note that this is sort of an oddly produced document, I guess, where the language on Bates page ending

604 and 606 is the same. So to the extent you're reviewing the document, you can skip 104.
If you would just review it to the extent necessary to tell me whether you remember it.
A. Yes.
Q. Do you recall this document?
A. Yes.
Q. Did you draft language in this document?
A. Yes.
Q. Do you recall if you borrowed, so to speak, some language from a prior year similar work paper?
A. Yes.
Q. And then rolled it over into the '97 audit?
A. Yes.
Q. And then added some things?
A. Yes.
Q. Do you recall meeting with any individuals from AHERF in doing the control work for the A/R area for 1997?
A. I met with Robin Schaffer, Rick

Snow, Bill Gedman, some of Robin's staff, some of Bill's staff.
Q. Do you recall meeting with a guy named Russell Laing at all?
A. Russell Laing?
Q. Yes, Laing, L A I N G.
A. No.
Q. Do you recall what it was you discussed with Mr. Snow?
A. My meeting with Greg was more of a high level as an introduction, and then he introduced me to his staff.
Q. When you say high level, what do you mean?
A. Just to make sure he was reviewing his staff's work, that type of information. It wasn't -- I wasn't asking direct questions to him.
Q. If you would go to the Bates page ending 107. The second item, there's a dash by A/R agings. Are you with me there?
A. Yes.
Q. It stated, A/R agings, paren, monthly reports that detail A/R by payer hospital, agings focusing on accounts older

than 90 days old, paren, refer to A/R agings, ROT, end paren.
Do you know why it was that AHERF was preparing schedules that had detail on accounts over 90 days old?
A. I'm sorry, I don't understand your question.
Q. Do you know why it was that AHERF was focusing on accounts that were over 90 days old in the reports?
MR. STEINBERG: Object to form.
A. Accounts that are over 90 days old are sometimes less likely to be collected.
Q. And then skipping the item underneath that and going to the one that says rejected billing reports, it says, rejected billing reports, paren, i.e. quarterly AHERF rejected claim analysis report, paren, refer to rejected claim analysis report ROT.
Do you recall reviewing any rejected billings report -- rejected billing reports?
A. I don't remember what the rejected billings reports are.
Q. The item underneath that states,

financial reporting executive summary report, paren, reports on days in system A/R, credit balances, historical data, cash summaries, et cetera, referred to executive summary ROT.
Do you recall ever reviewing any of the cash data from AHERF with respect to receivables collection?
A. I looked at some daily cash reports prepared by Bill Gedman.
Q. What was the purpose of looking at those?
A. Subsequent receipts testing.
Q. So for purposes of your subsequent receipts testing, you were using the daily cash reports?
A. Yes.
Q. Did you review any daily cash reports for periods prior to the period in which you were doing the subsequent receipts testing work?
A. Not that I remember.
Q. Toward the bottom of the page, Bates 107, I guess it's the second dash from the top, there's a section, account charges greater than. Are you with me there?

A. Yes.
Q. It's stated, account charges greater than 250 -- actually, let me skip that one.
No, wait, I do want to do that one. Sorry.
Account charges greater than $2,500 with a balance within 90 percent of total charges final billed, paren, examine all patient accounts that remain at gross charges except commercial self-payer -- self-payers and M/A aps in paren.
Do you recall reviewing reports like that?
A. I don't remember the reports.
Q. For the record, I've handed the witness what we've marked previously as Exhibit 150. It is a July 17, 197 memo from William Gedman to Gregory Snow. Subject, DVR accounts at gross summary, June 30, 1997.
Miss Heinlein, if you would review that three-page document, let me know when you've had a chance to look at it.
A. Okay.
Q. Let me ask you first, do you recall

this document?
A. The memo, or the chart?
Q. Either.
A. No, neither.
Q. So the second page of this exhibit, the chart, doesn't refresh your recollection at all about reviewing any charts attempting to identify account balances within 90 percent of total charges?
A. No.
Q. Do you have an understanding of why AHERF was developing charts that then attempted to identify account balances within 90 percent of charges?
A. No, sir.
Q. Do you think you would have had an understanding at the time you wrote the language in the record of monitoring controls document?
MR. STEINBERG: Objection. Calls for speculation.
A. I don't know what I knew at that point.
Q. As you sit here today, do you know why AHERF was attempting to identify accounts

within 90 percent of gross charges?
A. No.
Q. Do you recall any discussion at all that for one reason or another there were accounts on various hospitals' books where the contractual allowance had not been taken properly?
A. No.
Q. Do you know what I mean when I say contractual allowance?
A. Yes.
Q. What is your understanding of that term?
A. Total charges, most physicians, hospitals have a charge master which are a hundred percent of charges. Most of the time their contracts don't give them a hundred percent of charges, so they write a contractual allowance against what the total charges versus what the amount is that they would be collecting.
Q. If you go back to Bates page ending 107 of the record monitor controls document.
The item below the one I just read regarding the 90 percent of total charges,

there is a section that says, at month-end and out-of-period report it is developed that -- I believe that's supposed to be a that -- details the contractuals taken in the recent month that were billed in the prior month. This report is also given to Robin Schaffer in finance.

Miss Heinlein, do you recall that AHERF prepared reports that were -- that attempted to identify contractuals taken out-of-period?

A. No.

Q. If you would look at that document.

For the record, I've shown the witness 2298, which is a October 15th, 1997 memo from Robin Schaffer to Dan Cancelmi that attached has some schedules.

Q. Miss Heinlein, if you could review that schedule to the extent you feel necessary to tell me whether or not you recall it.

MR. McDONOUGH: Do you recall --

MR. TORBORG: It.

MR. McDONOUGH: It. Thank you.

MR. TORBORG: Or any of the documents contained within there.

A. I don't remember seeing this

document.

Q. If I ask you just briefly to turn to the third page of the document, Bates ending 501.

A. Okay.

Q. Does that schedule look at all familiar to you?

MR. STEINBERG: Objection. Asked and answered.

A. No.

Q. Now, the schedule we looked at earlier that was tracking your time for the 1997 audit under the RMC revenue area had in paren some language that said including early substantive. Right?

A. Yes.

Q. Do you know what that means?

A. I also looked at the roll-forwards for March 1997, which is not normally part of controls testing.

Q. Do you recall whether you reviewed any other -- or you performed any other substantive testing during the preliminary phase of the audit?

A. I don't remember anything else.

Q. But you do remember reviewing roll-forward schedules dated 3-31-97?

A. Yes.

Q. Do you recall for what entities you reviewed those schedules? All of them?

A. I think all of them.

Q. Including the Graduate entities that were brought into the AHERF system in 1997?

A. I don't think Graduate.

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(Thereupon, Deposition Exhibit 4285 was marked for purposes of identification.)

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Q. For the record, what I've marked as Exhibit 4284 -- 85 is a copy of a production produced to us by PricewaterhouseCoopers in approximately August of this year -- I'm sorry, in August of last year. That is a copy of a diskette and then a file directory that was on that diskette.

Miss Heinlein, my question for you is, do you recognize the handwriting on the diskette itself?

A. No.

Q. You don't recognize that as your handwriting?

A. No.

Q. Can you read what it says on there?

A. FY97, fiscal year '97 auditor files. I can't read what -- I think that says revenue and A/R, prelim, 3-97, and AUDWK4.

Q. Miss Heinlein, do you recall whether you had copies of floppy diskettes that had schedules and other items related to the AHERF audit?

A. Yes.

Q. Do you know if these diskettes you shared them, amongst others, in the AHERF audit team or if you had sort of your own diskettes?

A. Both.

MR. TORBORG: I'm going to mark five exhibits all at once.

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(Thereupon, Deposition Exhibits 4286 through 4290 were marked for purposes of identification.)

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MR. TORBORG: That's your first

one.
I'll explain the Bates numbers in a second.
That's your second one, 4287.
Sit back and relax. You've got a second while we go through this minutia.
So I've marked 4286, 4287, 4288, 4289, and 4290, or we're in the process of doing this.
Let me explain for the record the Bates numbering on this document. I've put a JDCL disk 0198 Bates range on all of these documents which indicates the Bates number that was put on by Jones Day, and that is a file that we pulled from the diskette pictured on the previous exhibit. Okay?
They were actually eventually produced to us on a CD. And then the particular file names for the schedules are actually on the Bates numbers as well. Okay?
And then I also note for the record that the date in the upper right-hand corner on the schedule, December 2003, that's the date that just pops up when I print it. That's it. I couldn't get it not to print that. So that's

what that is, so the record is clear on that.
Q. And, also, behind each of these documents I have provided printouts of the production diskette that shows where they came from, as well. But I don't have any questions for you on that.
If you would, though, flip back with me to the cover of the diskette and the file directory.
MR. STEINBERG: Exhibit 4285?
MR. TORBORG: Thank you. 4285.
Q. The first -- the exhibit I've marked as Exhibit 4286 is file name BCCBDAUD.WK4.
I think you'll see that particular number. The second one over that has a -- something in the directory column, do you see that there?
A. Yes.
Q. And then there's a date on that particular file of April 28th. April 28th, 1997. Do you see that?
A. Yes.
Q. First of all, let me ask you, do you recognize the schedules that I have marked

as Exhibits 4286 through 4290 as copies of bad debt roll-forward schedules?
A. Yes.
Q. Do you recall these schedules?
A. Yes.
MR. STEINBERG: Just to clarify, the schedule is -- does not include the printouts of the directories --
MR. TORBORG: Yes.
MR. STEINBERG: -- behind them?
MR. TORBORG: You're right. Thank you.
Q. Do you know what the date on the file of April 28th, 1997 means?
A. No.
MR. McDONOUGH: On Exhibit 4285?
MR. TORBORG: Yes.
A. No.
Q. Would that be the date at which it was last modified?
MR. McDONOUGH: Object to form.
A. I don't know.
Q. Do you recall from whom you received these schedules?
A. Either Robin Schaffer or Robin

Schaffer's staff.
Q. Do you recall in what form you got this schedule, whether it was on a disk or whether you got actual paper copies of them?
A. I think they were on a disk.
Q. Do you recall when it was after you received the diskette that you started to review the schedules?
A. No.
Q. Was it shortly thereafter, a couple weeks after, a month after, any notion at all?
A. No.
Q. If I could ask you to go to Exhibit 4286, which is the first of the roll-forward schedules I showed you for Bucks County.
A. Yes.
Q. Inpatient side.
First of all, can you explain on the record how this schedule works?
A. It shows the beginning balance, which is fiscal year 6-30-96, $2,945,570, which also has a beginning balance in July, and it rolls forward write-offs, recoveries, the age trial balance, and it gives you a total for the month. And that's either added or subtracted